

# 2010-11 –3<sup>rd</sup> QUARTER STATUS REPORT – Chief Investment Officer

(J. Dear)

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## Quantitative Performance Measures

### Total Fund

Weight	Performance Measure	Incentive Schedule	3 <sup>rd</sup> Quarter Status
70%	Excess return deviation in basis points relative to: Total Fund Performance Benchmark {SJ1CA1 – CPERST02}	-27 basis points = 0 +7 basis points = 1.0 +23 basis points = 1.5	+38 bps {18.62 – 18.24}

## Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

### Leadership

Weight	Performance Measure
15%	<ul style="list-style-type: none"> <li> <b>Investment Office Leadership and Management</b> – By June 30, 2011, contribute to the value creation, capacity building, and organization support for the Investment Office by executing the following:                             <ul style="list-style-type: none"> <li>Drive global leadership and financial market reform to improve investment performance and enhance delivery of services.</li> <li>Build organizational excellence by strengthening and reinforcing a value driven culture that fosters accountability, transparency, and integrity by utilizing Senn Delaney training and communication concepts.</li> <li>Mentor and develop staff through regular coaching and feedback. Ensure 95% completion rate for annual performance appraisals and employee development plans.</li> </ul> </li> <li> <b>Team Participation – Cross Asset Class Collaboration</b> – By June 30, 2011, participate in and support cross asset class initiatives, such as the Investment Office Roadmap, Investment Strategy Group, Risk Management, and Governance initiatives to improve investment performance and processes.                             </li> <li> <b>Individual Contributions – Asset Class Priorities</b> – By June 30, 2011, implement asset class priorities which contribute to the success of your program by adopting innovative approaches and overcoming obstacles to improve investment performance and processes.                             </li> <li> <b>Organizational Management Practices</b> <ul style="list-style-type: none"> <li>Maintain an average position vacancy rate of 5% or less through the fiscal year 2010-11.</li> <li>Ensure all Form 700 Statements of Economic Interest are filed by scheduled employees by the mandated due date of April 1, 2011.</li> <li>Ensure all scheduled employees complete the legally mandated AB 1234 ethics training by June 30, 2011.</li> <li>Maintain a 90% EPAD completion rate.</li> <li>Address and resolve all outstanding audit findings within 12 months of audit report.</li> <li>Dedicate 30 minutes per month for Employee Recognition during the year through fiscal year 2010-11.</li> </ul> </li> </ul>

### 3<sup>rd</sup> Quarter Status:

- Investment Office Leadership and Management:
  - Market Reform accomplishments include:
    - Comment letters submitted on a range of issues including derivatives, credit ratings, SEC funding, accounting, audit and governance. Participated in the preparation and co-ordination of an amicus brief to the U.S. court of appeals on proxy access submitted through the Council of Institutional Investors.
    - Achieved a major win when Apple shareowners voted 73 % in favor of CalPERS majority vote proposal. Another 32 companies out of 58 targeted have agreed to voluntarily introduce the proposal. Engagement continues with the remaining companies.
    - Corporate Governance staff participated in the PCAOB investor working group, leading discussion on recommended response on audit reform in the wake of the financial crisis. Staff also participated in IFRS monitoring board roundtable on governance architecture for international accounting standards.
    - Prepared the Diverse Director Datasource for launch in the 4<sup>th</sup> quarter.
    - CalPERS board candidate appointed to United Health Board of Directors.
    - Attended a JP Morgan Decision Makers Roundtable hosted by Jamie Dimon, CEO and discussed the financial market regulation developments.
  - Standard template for new investment strategies developed and operating implications of new strategies are reviewed by Operating Committee. Rapid Results Team is developing operating event process.
  - Regularly met with senior staff to provide feedback, mentoring and coaching as appropriate.

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- Team participation and accomplishments included:
  - Initiated second phase of the Integration Environmental Social Governance project. Continued to work with cross asset class team and external consultants.
  - Lead senior team sessions to refine and assess 2010 Roadmap.
  - NVO roadmap for 2011/12 completed and presented to the Investment Committee. It identifies six strategic priorities and specific initiatives to make progress on them.
- Individual Contributions included:
  - Made presentations to World Pension Forum, State of the West Symposium, ILPA Roundtable, Pacific Pension Institute, LA Trustees Network Roundup 2001, Milken Series Breakfast, Stanford's Fiduciary College and Private Equity Growth Capital Council, Board of Directors.
  - Supervised COIO preparation of Target Operating Model, a single integrated plan to develop and implement vitally needed systems, controls and management processes to control risk, assure compliance and bolster rigor of INVO planning and decision making.
  - Did media interviews with Michael Corkery, Wall Street Journal, asset allocation, January 12; Anton Troianovsky, Wall Street Journal, real estate, Jan. 24; Jo Kawakami, NIKKEI, several topics, February 7; CNBC, Bill Griffeth, Closing Bell, February 17 and Strategy Session, March 17; Charles Bagli, NY Times, real estate, March 3.
  - Recognition accomplishments include holding two all staff INVO Forums (a special Forum was held to answer questions regarding the special review), five brown bag lunches with staff from different offices; conducted five coffee sessions to update INVO staff on accomplishments of 2010 Roadmap; luncheon with corporate governance team to celebrate the accomplishment of the 2010 Financial Market Reform Project.
  - Continued the INVO speaker series by talks with Vinod Khosla and David Blood.
- Organizational Management Practices:
  - Recruited for the Senior Investment Officer of AIM.
  - Met weekly with AIM team.
  - Regularly met with senior staff to provide feedback, mentoring and coaching as appropriate.
  - Continued to meet with staff regarding cooling off legislation.
  - Met with staff regarding the submission of revised Form 700.

## Enterprise-wide Initiatives and Collaboration

Weight	Performance Measure
15%	<p>By June 30, 2011, continue to improve collaboration between the Investment Office and other CalPERS divisions/branches, through the following activities:</p> <p>Protect stakeholder interests, assist policymakers in making decisions, and influence the State and Federal pension reform debate.</p> <p>Conduct an asset liability management process that is transparent, allows input by multiple stakeholders and results in the development of sustainable asset allocation policy.</p> <p>Lead, design and implement a risk framework and governance structure for the Investment Office that aligns with the enterprise Risk Management function.</p> <p>Complete the special review of placement agent issues and adopt appropriate recommendations to implement governance changes.</p>

### 3<sup>rd</sup> Quarter Status:

- Participated in executive staff discussion and interviews on CalPERS reorganization.
- Initiated and served as one of the exec sponsored of the contract workout that brought together INVO, OSSD, ITSB, and LEGO to design process improvement that will reduce contract process time by 50%.
- Participated in executive staff discussion on pension policy problems.
- Participated in several meetings regarding, long term return assumption, business plan reputational risk/black swan exercise, and special review.
- Continued to inform Board of investment issues through Board weekly updates.
- Participated in the Joint Informational Hearing/Sen PE&R Assm PER&SS Committees on Little Hoover Commission Pension Report.
- Met with the legislators and staff: Senator Correa, Pamela Schneider, Chief Consultant Senate PE&R, Michael Bolton, Consultant, Senate PE&R, Karon Green, Consultant, Assembly PER&SS, Terry Mast, Assembly Republican Caucus, Chantele Denny, Senate Republican Caucus, Senator Curren Price, Assemblyman Warren Furutani and Assembly Member Monning.
- Continued to work with the Controller's Office on proposed Cooling Off legislation.